Molson Industries Limited Annual Report 1972

MOLSON INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

Incorporated under the laws of Canada

Head Office
1555 Notre Dame Street East,
Montreal, Quebec

Executive Office
2 International Boulevard,
Toronto, Ontario

Registrar
National Trust Company Limited
Halifax, Montreal, Toronto,
Regina, Calgary and Vancouver

Transfer Agent
The Royal Trust Company
Halifax, Montreal, Toronto,
Regina, Calgary and Vancouver

Auditors
McDonald, Currie & Co.

637-5400

Pour obtenir la version française de
ce rapport annuel il suffit d'écrire
aux Industries Molson Limitée,
Case Postale 1600, Place d'Armes,
Montréal, Québec.

FINANCIAL HIGHLIGHTS

Operations (millions of dollars)	1972	1971
Sales	**$376.0**	$314.7
Earnings before extraordinary items	**16.7**	13.7
Earnings after extraordinary items	**16.7**	12.6
Financial position (millions of dollars)		
Working capital	**72.2**	39.0
Long-term debt	**51.0**	17.8
Shareholders' equity	**125.8**	98.6
Per common share		
Earnings before extraordinary items*	**1.40**	1.20
Earnings after extraordinary items*	**1.40**	1.11
Dividends paid	**.72**	.72
Shareholders' equity	**9.29**	8.67

**Based on average number of shares outstanding during the year*

Contents

The annual meeting of the shareholders will be held at the head office of the company, 1555 Notre Dame St. East, Montreal, Quebec, on June 29, 1972 at 11.30 a.m. EDT.

DIRECTORS

*T.H.P. Molson, Montreal
Honorary Chairman of the Board

*Hon. H. deM. Molson, Montreal
Chairman of the Board
Vice President and Director, Bank of Montreal
Director, Canadian Industries Limited, Sun Life Assurance Co. of Canada
Member, The Senate of Canada

*H.N. Bawden, Toronto
Director, Dominion Securities Corporation Limited, Dominion Foundries & Steel Co. Ltd.

*J.T. Black, Toronto
Executive Vice President, Operations

*Peter D. Curry, Winnipeg
Chairman and Director, The Investors Group
Director, Ford Motor Company of Canada, Limited, The Great West Life Assurance Company, International Nickel Company of Canada Limited, Northern and Central Gas Corporation, Limited, Power Corporation of Canada, Limited
Chancellor, University of Manitoba

W.P. Frankenhoff, New York
Chairman, William E. Hill & Company, Inc.
Director, The Dexter Corporation, Roanwell Corporation, Weil-McLain Co., Inc.

Donald Harvie, Calgary
Senior Vice President, Petrofina Canada Ltd.
Director, Petrofina Canada Ltd., Bank of Montreal, Standard Life Assurance Company, Glenbow-Alberta Institute
Member of Senate, University of Calgary

David Lakie, Toronto
Senior Vice President, Retail Merchandising Group

Roger Létourneau, Q.C., Quebec
Senior partner, Létourneau, Stein, Marseille, Delisle and La Rue, Barristers and Solicitors
Vice President and Director, Bank of Montreal
Director, Domtar Limited, The Price Co. Ltd., Petrofina Canada Ltd.

*Morgan McCammon, Q.C., Toronto
Senior Vice President, Corporate Services

*A.G. McCaughey, Toronto
Senior Vice President, Finance

H.C.F. Mockridge, Q.C., Toronto
Senior partner, Osler, Hoskin and Harcourt, Barristers and Solicitors
Director, International Nickel Company of Canada Limited, Bank of Montreal, Confederation Life Insurance Company

J. David Molson, Montreal
Director, Montreal Trust Company
Governor, Montreal Children's Hospital, Montreal General Hospital, Queen Elizabeth Hospital

Gérard Plourde, Montreal
Chairman of the Board, UAP Inc.
Vice President and Director, Alliance Compagnie Mutuelle d'Assurance-Vie
President, Société de Développement Industriel du Québec
Director, Anglo-French Drug Co. Ltd., Editions du Renouveau Pédagogique Inc., Gulf Oil Canada Limited, Northern Electric Co. Ltd., Omer De Serres Limitée, Robert Morse Corpn. Ltd., Rolland Paper Company Ltd., Steinberg's Limited, The Toronto Dominion Bank, Hôpital Notre-Dame

F.H. Sobey, Stellarton
Chairman of the Board, Sobeys Stores Limited
Director, Sydney Steel Corporation, Dominion Textile Limited, Toronto Dominion Bank, Fraser Companies Limited, Halifax Developments Ltd., Maritime Steel & Foundry Ltd., Warnock Hersey International Ltd.

G.B. Waterman, Toronto
Senior Vice President, Industrial Products Group

N.E. Whitmore, Regina
President, Wascana Investments Ltd., Regina Land Development Limited
Director, Canadian Pacific Ltd., Canada Permanent Mortgage Corporation

*D.G. Willmot, Toronto
President and Chief Executive Officer
Director, The Bank of Nova Scotia, Crown Life Insurance Co., Hayes-Dana Limited, Texaco Canada Ltd., Foster Wheeler Ltd. (Canada)
Member, Executive Council, Executive Committee and Treasurer, Canadian Manufacturers' Association
Member, Minister's Advisory Council, Department of Industry, Trade and Commerce
Member, Board of Governors, Ridley College

**Member of the Executive Committee*

OFFICERS

T.H.P. Molson, Honorary Chairman of the Board
Hon. H. deM. Molson, Chairman of the Board
D.G. Willmot, President and Chief Executive Officer
J.T. Black, Executive Vice President, Operations
J.P.G. Kemp, Senior Vice President, Commercial Products and Services Group
David Lakie, Senior Vice President, Retail Merchandising Group
Morgan McCammon, Q.C., Senior Vice President, Corporate Services
A.G. McCaughey, Senior Vice President, Finance
P.B. Stewart, Senior Vice President, Brewing Group
G.B. Waterman, Senior Vice President, Industrial Products Group
W.A. Critchley, Vice President and Controller
K.A.F. Gates, Vice President, Law
J.B. Jolley, Q.C., Vice President and Secretary
W. Morris, Vice President, Corporate Development
R.J. Stuart, Vice President, Personnel and Industrial Relations
M.C. Payne, Treasurer
G. Marin, Solicitor and Assistant Secretary
C.R. Cook, Assistant Secretary

D.A. Heeney, v.p. corporate communications:

It is a pleasure to report that both consolidated sales and earnings reached new record levels during the year ended March 31, 1972. In addition, the company embarked upon a major new direction by entering the hardgoods retail merchandising business, and completed a $40 million financing upon favourable terms.

Financial results

Consolidated sales totalled $376,039,937 compared with $314,691,924 in the previous fiscal year. This increase of almost 20% reflects both internal growth in almost all of our businesses and additional revenues of companies acquired during the year from their dates of acquisition.

Net earnings amounted to $16,724,797 or $1.40 per share, based on the average number of shares outstanding during the year, a substantial increase over earnings before extraordinary items of $13,662,395 or $1.20 per share last year. An extraordinary loss last year, resulting from the exchange difference due to the freeing of the Canadian dollar, reduced net earnings to $12,627,116 or $1.11 per share. There were no significant extraordinary items this year.

Dividends declared during the year totalled $8,937,475 or 72 cents per share, the same rate as in the previous year.

The consolidated balance sheet reflects both the growth of the company during the year and a sound financial position. Working capital at March 31, 1972 was $72,161,684, a substantial increase from the level of $38,983,921 a year ago.

After deducting the goodwill element of acquisitions made during the year from retained earnings, shareholders' equity was $125,810,778 or $9.29 per share compared with $98,641,881 or $8.67 per share last year.

Operations

Brewing Group

Brewing operations enjoyed a particularly gratifying year in fiscal 1972. Consolidated sales of Molson Breweries of Canada Limited reached a record level of $232,162,979, a 15% gain over the previous year. Molson's rate of growth exceeded that of the Canadian brewing industry as a whole, despite the fact that the industry experienced an unusually large increase in volume. Molson volume gains in fact were the equivalent of virtually half of the total industry increase in the year, and our share of the Canadian market surpassed 30% for the first time.

Retail Merchandising Group

Through the acquisition of Beaver Lumber Company Limited, Aikenhead Hardware Limited, Warden Lumber Distributors Limited and Home Lumber (Retail Division) Limited, the company took a major step towards the planned development of a large integrated chain of home hardgoods retailing centres. The accounts of each of the foregoing companies have been consolidated from their respective dates of acquisition, July 1, 1971 in the case of Aikenhead and January 1, 1972 in the case of Beaver.

While these operations contributed to both sales and earnings in the period under review, the full effect will only be reflected next year. Net earnings of Beaver Lumber Company Limited for the three months ended March 31, 1972 have been published separately, and were 12% above the same period a year earlier.

Commercial Products and Services Group
The office equipment and supplies and the business forms divisions each contributed to increased sales and profits in the year, and to complement their activities, the shares of Willson Business Services Limited of Winnipeg were purchased during the final quarter. Willson's principal business is conducted through 12 distribution centres from Quebec to British Columbia, marketing a wide variety of office supplies and equipment to business, government and institutional accounts. In addition, it operates 21 retail outlets, also from Quebec to British Columbia.

The level of sales and earnings of our educational furniture and supplies business continued at satisfactory levels, and our home furniture divisions showed improved operating results compared with last year.

Revenues and earnings of the warehousing and distribution divisions were ahead of the previous year, reflecting continuing growth in demand for these services from industrial and government accounts. The purchase of the warehousing assets of Wallace Warehousing and Cartage Limited of Moncton and the opening of a pharmaceutical warehouse in St. John's extended the services which these divisions provide in the Atlantic Provinces.

Industrial Products
The gasoline pump manufacturing business in the United States, which had enjoyed an increased demand in fiscal 1971 with the introduction of no lead and low lead gasolines, fell sharply in fiscal 1972 as these programs were completed. This reduction in industry volume business, coupled with a lengthy strike at our principal plant, in Muskegon, Michigan, reduced the profit contribution from this segment of our business. On September 30, 1971, the shares of Beck & Co. (Meters) Limited of London, England, a manufacturer of gasoline pumps, were purchased to extend our pump manufacturing operations to the U.K. market and to other markets served by Beck.

Operations providing products and services to the Canadian construction market responded to increased activity in that industry in Canada, resulting in a higher level of sales and profit contribution than has been the case in recent years. The current outlook is for continued strong performance by the construction segment of the Canadian economy, and for those divisions which serve the construction market.

Financing
Last September your company sold an issue of 8¼% sinking fund debentures in the principal amount of $40,000,000. Dated November 1, 1971, and maturing in 1991, these debentures represent the first long-term debt financing by your company. The issue was well received and the proceeds were applied to reduce bank indebtedness and enhance working capital.

Capital expenditures
Nearly $13,000,000 was expended on new plant and equipment in fiscal 1972. This is a record level reflecting the need for additional production capacity in many of our businesses, especially in brewing, coupled with the need to improve productivity wherever possible to reduce the impact of higher costs.

The substantial increases in volume of our brewing operations, the planned expansion of the hardgoods retail business and our other operations, will result in capital expenditures of nearly $23,000,000 in fiscal 1973.

Industrial Relations
Your company employs approximately 9,200 people in North America and Europe, of whom some 4,000 at 33 separate locations, are covered by collective agreements. During the fiscal year, twenty successor agreements of two and three years' duration were negotiated. Twelve collective agreements will come up for renewal during fiscal 1973.

Organization
During the year a lengthy and detailed assessment of our organization structure and principles affecting the future conduct of the affairs of the company was made. Out of those deliberations came the decision to regroup some of our operating divisions and a confirmation of the organization principles which will guide us in the conduct of the company's affairs for the foreseeable future.

As a consequence, operating divisions comprising the former Canadian Industrial Group and the U.S. and International Industrial Group were realigned to form two new operating groups, the Industrial Products Group providing products and services to the international

petroleum marketing equipment markets and the Canadian construction market; and the Commercial Products and Services Group serving the Canadian office furniture and supplies market, educational furniture and supplies market, home furniture market and providing warehousing and distribution services to industry and governments in Canada. In addition, the hardgoods retail merchandising companies acquired during the year now constitute the Retail Merchandising Group. The Brewing Group which continues to operate as a unit serving its markets was not affected by these changes.

Corporate Communications

As the company's size and diversity developed rapidly in recent years, management became more aware of the complex nature of communications throughout all its operations. Effective communication is vital to the success of any organization and constant evaluation of the communications process is essential. To this end, a thorough study was conducted during the year to examine all aspects of internal and external communications. As a result, a plan for more effective communications has been developed. The program will be under the direction of a Vice President, Corporate Communications.

Public Affairs

Business today is facing new challenges by important segments of society. While criticism of business is not new, there is a real need to engage in a process of re-examining priorities and responsibilities in response to changing public demands. In this context a 'Public Affairs' function has been established to study the company's relation to the total environment in which it operates, to recommend policies on public issues, and to formulate plans for company response.

This new function will enable the company to address itself to important social, economic, and political questions that may have a profound effect on the business environment in the future. In this connection, during the year members of senior management met from time to time with many senior representatives of governments in Canada to exchange or to express views on subjects of current concern to both government and business. In addition, in response to invitations to do so, your company expressed its views on such bills as the Canadian Income Tax, Competition and Labour Acts. We look for greater rapport with public bodies in the future than in the past due to necessarily closer relationships required in social and economic planning.

Officers

Pursuant to the organization changes and developments referred to earlier, David Lakie was appointed Senior Vice President, Retail Merchandising Group, J. P. G. Kemp was appointed Senior Vice President, Commercial Products and Services Group, and G. B. Waterman became Senior Vice President, Industrial Products Group.

W. Morris became Vice President, Corporate Development at the close of the fiscal year succeeding P. M. Turner, who became Executive Vice President, Bennett Pump Inc. at Muskegon, Michigan.

Outlook

Present indications are that the level of economic activity in Canada and most other countries where the company carries on business will be higher in 1972. In particular the budget of the Government of Canada, presented on May 8, 1972, will be a direct stimulus to manufacturing activity in Canada. Accelerated depreciation allowances and the reduction in the corporate income tax rate will provide significant funds for growth and expansion which should improve the employment situation in Canada and help Canadian companies compete in world trade.

In such an environment, the outlook for your company's business in its next fiscal year is encouraging, and an increase in both sales and earnings is planned and expected.

On behalf of the Board:

H. deM. Molson

H. deM. Molson, Chairman of the Board

D. G. Willmot

D. G. Willmot, President

May 25, 1972


"Hockey Night in Canada"
MOLSTAR
Home gatherings
MOLSON
BIERE EXPORT
ALE
MOLSON
CANADIAN
Lager Beer
Recreational ski programmes
New congenial
pub-like atmospheres

BREWING GROUP

Total Sales $232,162,979

Nine breweries in Canada serve the beer and ale markets from coast to coast and in the northeastern United States

Sales by the Canadian brewing industry in the year ended March 31, 1972 were more than 7% higher than in the previous year. This was the second consecutive year of high industry growth.

Molson volume in the twelve month period reached a record level of 4,400,000 barrels, a gain of 10% compared with the year before. Molson's barrelage increase accounted for virtually half the growth experienced by the total Canadian brewing industry and contributed substantially to improved earnings. On the other hand, rising costs continue to be of concern to us despite some recent moderate price increases. We are, therefore, carrying on vigorously with capital programs which will assist in offsetting rising production costs.

Against intense competition, Molson Canadian Lager Beer and Molson Export Ale maintained their strong positions nationally with particular market share gains being realized in Newfoundland, Quebec, Ontario and Manitoba. Major regional brands were also selling strongly. In Quebec, Laurentide Ale increased its share significantly and in Ontario and Saskatchewan, Molson Golden continued to improve its market position. Old Style, Lethbridge Pilsner and Bohemian Lager each showed strong trends toward full recovery from major competitive brand introductions in their respective western markets.

During the year Molson introduced premium-strength, premium-priced products in two provinces. In Quebec, the demand for Brador was greater than expected and provided the company with an increased share of the industry's gross dollar revenue, while establishing itself as the leader in the Quebec premium beer segment. In Alberta, in spite of three later introductions of malt liquor products by competitors, Lethbridge Malt Liquor remains the leader.

The growing demand for Molson products continues to require facilities expansion. During the past year the Vancouver packaging centre was completed. This new facility provides the company with another high-speed bottling line capable of meeting our expanding market requirements. The rapid increase in sales of our products over a short period of time has necessitated the advancement of some capital projects. In Montreal and Winnipeg additional bottling capacity will be installed during the current year and in Toronto yet another addition to our storage and aging facilities is now underway.

During the year labour agreements for three-year periods were negotiated at our breweries in Montreal, Toronto, Winnipeg, Regina, Edmonton and Lethbridge. These settlements along with a two-year agreement at Vancouver provide for a substantial increase in wages and fringe benefits, in common with the rest of the brewing industry.

The outlook for the year ahead is for beer consumption to rise at a somewhat lesser rate, but for our sales to continue to grow at a rate above the industry average. We believe the momentum created by the popularity of our various established brands, as well as our brand introductions of the past year should enable us to make further gains in market share.

As our 187th year begins, Molson Breweries looks forward with confidence in the people who make up the organization, and with full appreciation of the people who continue to favour our products.

Beaver home improvement centre

Materials for do it yourself home decorating

Friendly personal service at Beaver

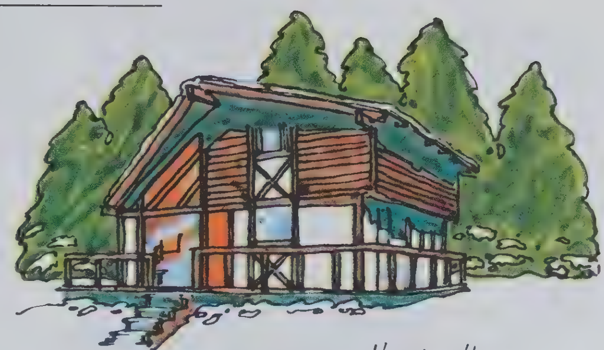
Gourmet kitchen centre

Aikenhead service centre

RETAIL MERCHANDISING GROUP

Total Sales $33,200,624

Serving home improvement hardgoods markets from Quebec to British Columbia with lumber, building materials, hardware and home decorating supplies



New Beaver Vacation Homes

Retail merchandising represents a new business direction for your company and is included in our annual report for the first time. The group was formed July 1, 1971, coincident with the acquisition of Aikenhead Hardware Limited, the largest retail hardware chain in southern Ontario. The base of the company's new venture was broadened later by the purchase of Home Lumber (Retail Division) Limited and Warden Lumber Distributors Limited, two well-known lumber and building products retailers in the Toronto area. Subsequently, effective January 1, 1972, the company acquired Beaver Lumber Company Limited, Canada's leading retailer of lumber and building products and materials. Sales of $33,200,624 for this group reflect the inclusion of these companies only from their respective dates of acquisition. If the sales of these companies had been included for the entire 1972 fiscal year, they would have amounted to $118,000,000.

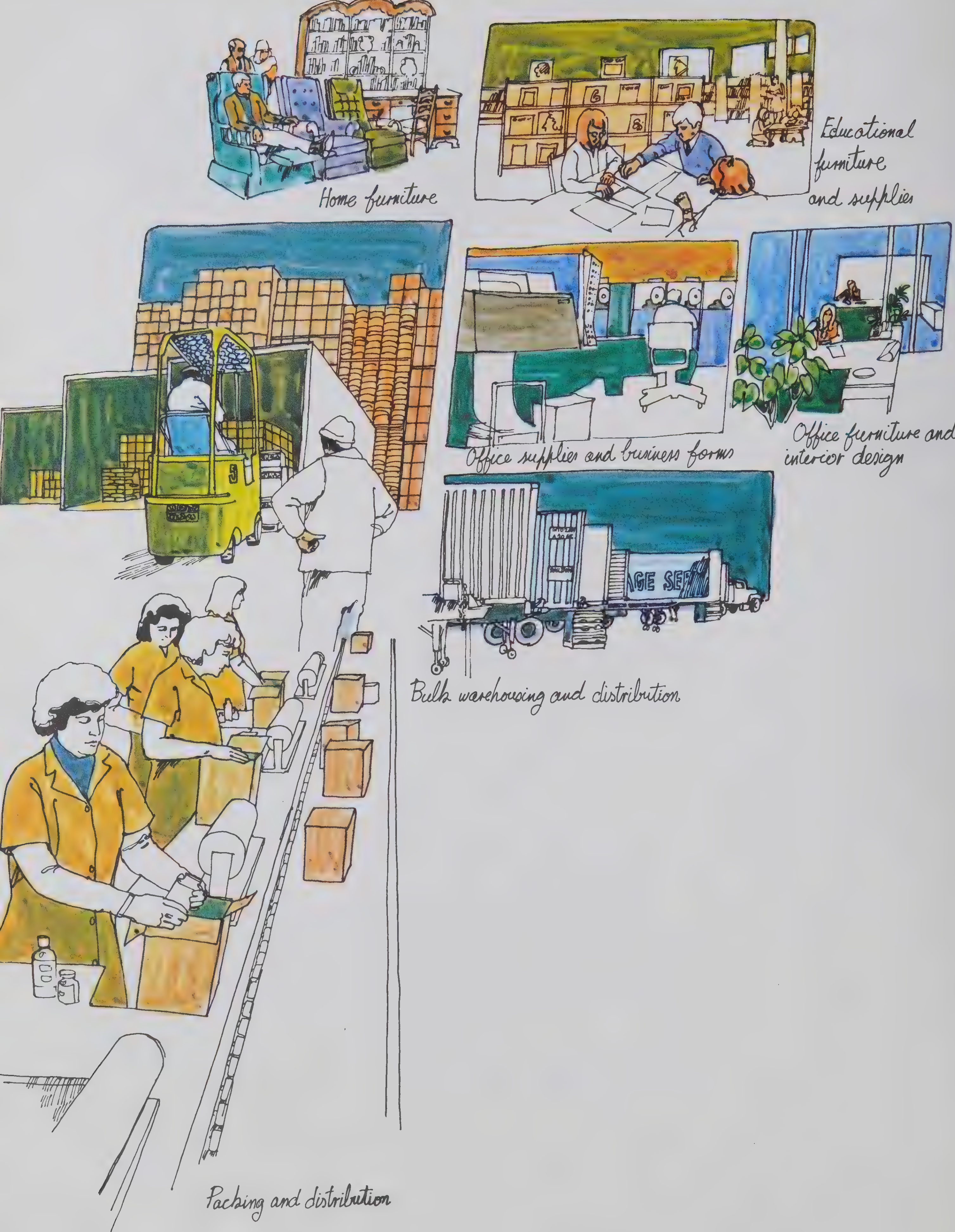
With 289 stores in six provinces the group has established a strong position from which to grow into a national home hardgoods retail chain. Aikenhead provides a solid base in hardware; Beaver provides lumber retailing experience and wide distribution. The personnel in all of these companies have many years of experience and we believe that their excellent capabilities and entrepreneurial skills augur well for the future.

Our entry into the retail merchandising field developed from corporate strategy considerations of two years ago, when we had identified the hardgoods merchandising field as one which offered interesting possibilities for growth and not unimportantly, one which we felt was within our competence.

Our studies, which included extensive research into the operations of a number of home centre chains within the U.S., convinced us that there were opportunities in Canada to develop similar concepts which for the most part were not being pursued in this country. The concept is simple enough—a national chain of large, home centres offering one-stop home improvement shopping.

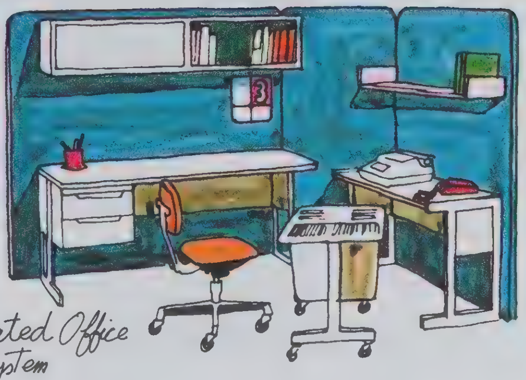
Our objective is to create a national home-related hardgoods merchandising operation with an annual sales growth rate of 15%. This we see being accomplished through the opening of 20,000 to 50,000 square foot Beaver home centres in urban markets, by enlarging existing Beaver stores, and by broadening the product lines now carried. We also plan to extend the chain of Saveway cash-and-carry stores of Beaver Lumber Company Limited into western Canada and open additional Saveway outlets in Ontario as well. In both Beaver and Saveway stores, hardware, lumber, building materials and home decorating supplies will be the major product groups. These basic products will be supplemented, depending upon store location and size, by other products which will include plumbing and electrical supplies, housewares, outdoor leisure items and seasonal merchandise. Although new stores will contribute substantial additional sales, no meaningful profit contribution is expected during their first year of operations.

Our growth program includes substantial additions to our family of stores each year over the next five years both in those areas in which we now operate, and in those parts of Canada where Beaver and Saveway are not presently represented. With consumer spending expected to continue at high levels we look forward with confidence to the coming year.


Home furniture
Educational furniture and supplies
Office supplies and business forms
Office furniture and interior design
Bulk warehousing and distribution
Packing and distribution

Total Sales $46,091,654

Office equipment and supplies
Educational furniture and supplies
Home furniture
Warehousing and distribution services



New Integrated Office Interior System

Sales and profits of our Office Equipment and Supplies businesses recorded satisfactory gains with considerable strength evident during recent months.

The acquisition of Willson Business Services Limited, an office equipment and supplies distributor with particular strengths in the western provinces, is a significant step in our plans to increase the market presence of our office equipment and supplies business. Through Office Specialty, Anthes Business Forms and Willson Business Services divisions we are now servicing our customers through 52 outlets from Victoria to Halifax. Eleven additional retail stores and distribution centres will be opened during the coming year.

During the year Systems 70, a new, modular series of office furniture, developed by Office Specialty, was introduced and has gained good initial market acceptance. The furniture which permits great flexibility in layout is adaptable to both large and small office areas and is suitable for traditional, contemporary, or landscaped interior plans.

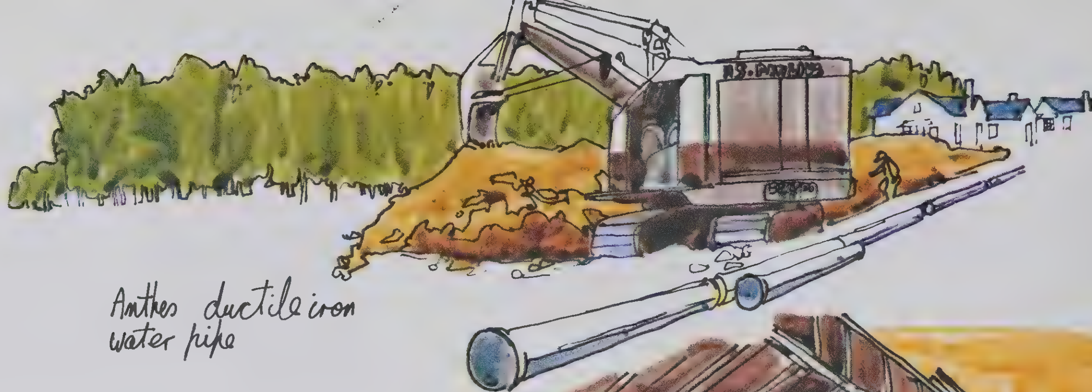
Although the office furniture market is still very competitive due mainly to excess manufacturing capacity in the industry and although some slackness in the educational market is anticipated, we are optimistic about the coming year's operating results since our operations will benefit substantially from recent manufacturing rationalization moves, from our broader distribution base and from a generally improved economic climate.

Sales and profits of our Educational Furniture and Supplies business were satisfactorily ahead of last year. The recent purchase of Canadian Library Supply Company, a specialized manufacturer of library shelving and furnishings, broadens the product line which we offer to the educational and institutional markets through our Moyer Vico division.

Increasing consumer confidence over the past twelve months, enabled our Home Furniture business to record substantial gains in volume and profits both in our lines of traditional Vilas furniture and La-Z-Boy reclining chairs. During the year a new upholstery plant was established in Montreal replacing facilities in Farnham, Quebec. The outlook for the furniture industry is good and sales and earnings are expected to increase.

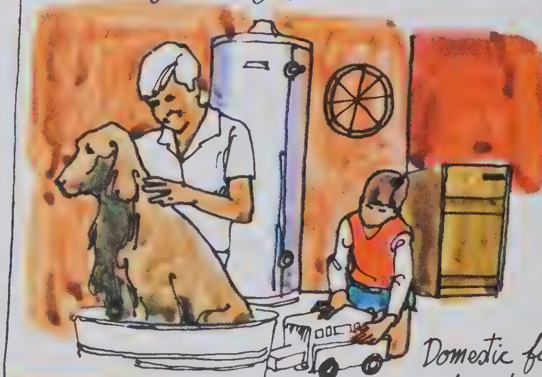
Demand for the services of our Warehousing and Distribution companies increased steadily over the past twelve months as general economic conditions improved and industrial production increased resulting in improved sales and earnings compared with last year. Through the acquisition, in 1971, of the assets of Wallace Warehouse and Cartage Limited in Moncton, New Brunswick, and the start-up of a warehouse in St. John's, Newfoundland, our warehouse and distribution operations now span the country.

We remain very optimistic about the future of the public warehousing business. During the year Midwest Storage and Distributing's operations in Winnipeg were consolidated in a new and larger facility which came into use in March of this year. In addition, the Toronto warehouse of Seaway Storage is now undergoing substantial expansion which is scheduled for completion in July 1972 and additions to our Moncton and Vancouver warehouses are planned for this year.

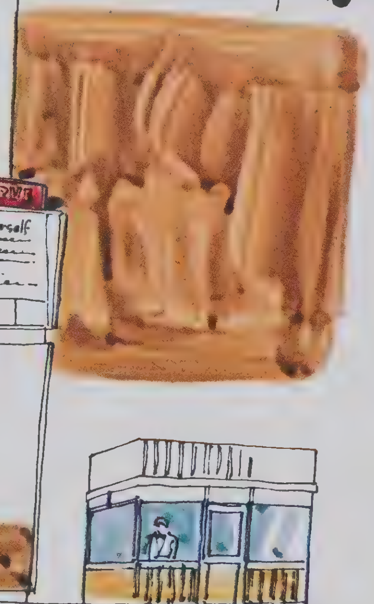


Anthes ductile iron water pipe

Heavy duty shoring for expressway construction



Domestic furnaces and water heaters

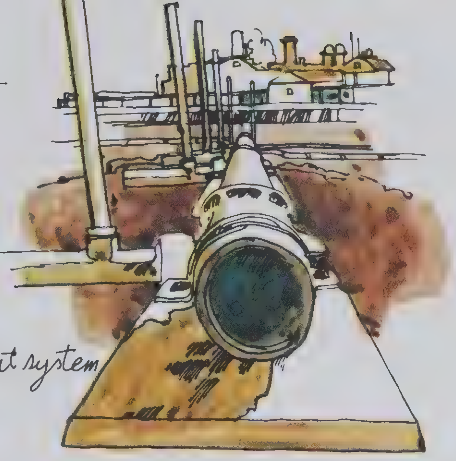
New self-serve remote-reading gasoline pumps

INDUSTRIAL PRODUCTS GROUP

Total Sales $64,584,680

Petroleum marketing equipment
- Gasoline pumps and other service station equipment

Construction products and services
- Cast iron soil pipe and fittings and cast iron pressure pipe
- Water heaters
- Domestic furnaces and oil burners
- Rental and sale of steel scaffolding, vertical and horizontal shoring, concrete shoring equipment, hoists, portable construction heaters and other light construction equipment


New Penberthy waste treatment system

The sales and earnings of our Petroleum Marketing Equipment business declined substantially last year because of an 18-week strike at our Bennett Pump plant in Michigan and a reduction in spending by major U.S. oil companies after last year's extraordinary demand for pumps needed in their low lead and no lead programs. These reductions in sales and earnings were only partially offset by the results of Beck & Co. (Meters) Limited, a U.K. based gasoline pump manufacturer acquired in September, 1971. Our operations in Milan, Italy were adversely affected by a decline in domestic sales due to anti-inflationary action taken by the Italian government, although gasoline pump exports showed a satisfactory growth.

Bennett and Beck are playing an active and innovative role in interesting developments taking place in Europe and the United States in the area of self-serve, post-pay gasoline dispensing equipment. In conjunction with major oil companies, both divisions are installing very advanced new petroleum marketing systems which may well become standards for the future. Although spending by many of the major oil companies in North America is expected to be somewhat lower this year, we expect to share in the continuing growth anticipated for the larger independent gasoline distributors. We are looking forward therefore to a year of full production, and with higher volume and modest price increases U.S. operating results should improve. We also expect the U.K. pump market to improve modestly. While domestic sales in Italy are likely to remain quite slow, exports should continue to expand.

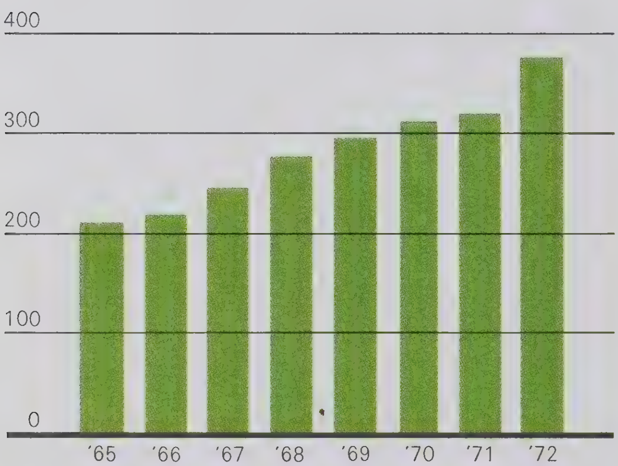
Our Construction Products divisions experienced a substantial improvement in sales and earnings last year, reflecting the high level of Canadian construction activity and the recovery of Anthes Eastern from strike depressed conditions of the prior year. Sales from the foundry operations increased and earnings improved. Record sales of water heaters were achieved.

Major equipment expenditures were made during the year to improve our efficiency and competitive position in the production of soil pipe and water heaters. In conjunction with a major oil company, we are developing a new water heater using a special burner designed to reduce air pollution. It is expected that production will commence shortly. Capital expenditures planned for the coming year include the installation of air pollution emission control systems in two foundries, and full conversion of a third foundry to an all-electric melting process.

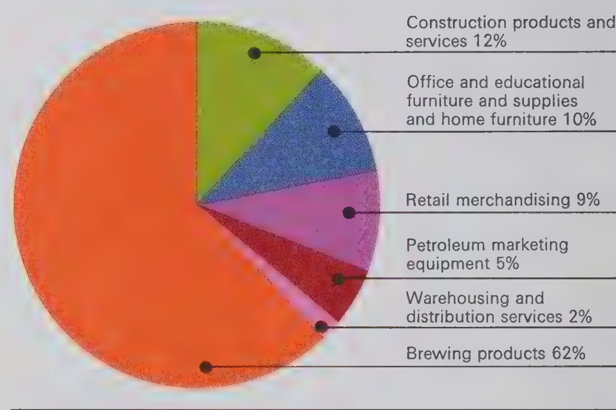
The steel joist manufacturing business which operated under the name Anthes Steel Products Limited was sold in November, 1971 since our long-range objectives and plans did not foresee an expanded role for us in the structural steel segment of the construction industry.

The Construction Equipment Rental business operated by Anthes Equipment Limited is influenced by commercial, engineering, institutional and apartment construction. Substantial activity in these markets contributed to a sharp increase in the revenue and profits of this division. During the year the scaffold rental assets of Dalmine Scaffolding of Montreal and Toronto were purchased and a new line of safety equipment was introduced across Canada by the acquisition of the rental inventories of Dorman Construction of Toronto.

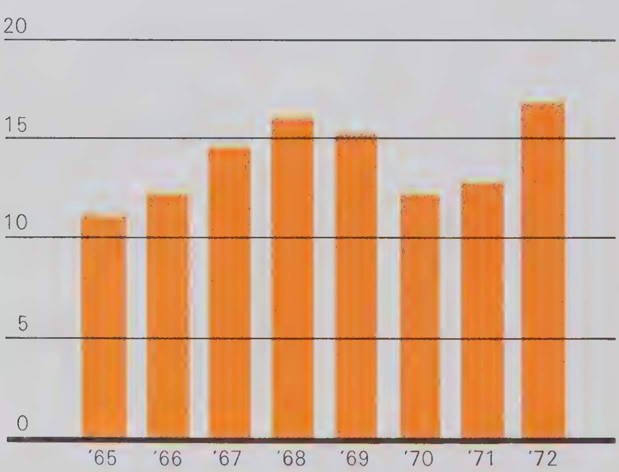
Sales in millions of dollars



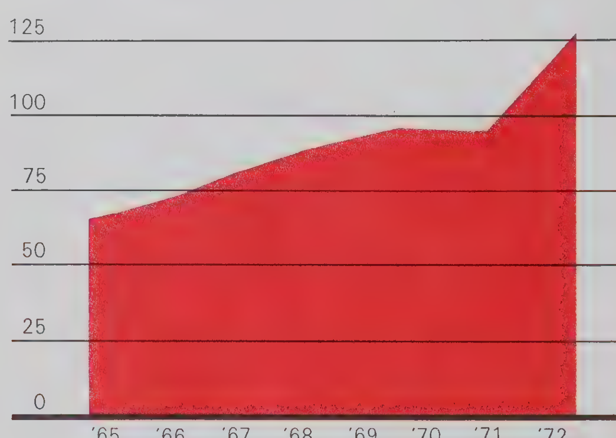
Sales by Product Group – 1972



Net Earnings in millions of dollars



Shareholders' Equity in millions of dollars



CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED MARCH 31	1972	1971
Sales	$376,039,937	$314,691,924
Manufacturing, selling and administrative costs and brewing taxes	343,516,499	286,703,509
Profit from operations	32,523,438	27,988,415
Investment income	978,028	1,006,129
Earnings before income taxes, minority interest and extraordinary items	33,501,466	28,994,544
Income taxes	16,500,000	15,000,000
	17,001,466	13,994,544
Minority interest	315,616	332,149
Net earnings before extraordinary items	16,685,850	13,662,395
Extraordinary items (note 2)	38,947	(1,035,279)
Net earnings after extraordinary items	$ 16,724,797	$ 12,627,116
Average number of shares outstanding	11,915,103	11,368,990
Per "A", "B" and "C" share –		
Net earnings before extraordinary items	$1.40	$1.20
Extraordinary items	—	(.09)
Net earnings after extraordinary items	1.40	1.11

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED MARCH 31	1972	1971
Balance, beginning of year	$ 80,287,073	$ 77,306,274
Net earnings	16,724,797	12,627,116
	97,011,870	89,933,390
Deduct:		
Dividends on common shares	8,937,475	8,182,994
Excess of purchase price of subsidiaries acquired over underlying fair value (note 8)	7,618,450	1,463,323
	16,555,925	9,646,317
Balance, end of year	$ 80,455,945	$ 80,287,073

CONSOLIDATED BALANCE SHEET

MARCH 31	1972	1971
Assets		
Current Assets		
Cash and short-term investments	$ 7,571,654	$ 5,274,045
Marketable securities, at cost (market value – $492,000)	553,537	641,608
Accounts receivable	47,291,457	30,905,167
Inventories, valued at lower of cost and net realizable value	72,346,027	39,378,146
Prepaid expenses	1,872,892	1,728,421
	129,635,567	77,927,387
Investments		
Marketable shares, at cost (market value – $9,600,000)	6,502,008	6,502,008
Other shares, at cost	1,629,577	550,294
Mortgages and loans	3,280,728	6,219,073
	11,412,313	13,271,375
Fixed Assets (note 3)		
Cost	214,995,006	167,498,300
Less accumulated depreciation	108,296,989	89,225,894
	106,698,017	78,272,406
Unamortized Debenture Discount and Expenses	1,056,729	—
	$248,802,626	$169,471,168

Signed on Behalf of the Board:
H. deM. Molson, Director
D. G. Willmot, Director

MARCH 31	1972	1971
Liabilities		
Current Liabilities		
Bank indebtedness (note 4)	$ 11,758,044	$ 10,365,784
Accounts payable	31,501,782	18,320,207
Income taxes	5,011,349	2,309,923
Excise, sales and other taxes	6,062,204	5,253,962
Dividends payable	2,402,504	2,013,340
Current instalments on long-term debt	738,000	680,250
	57,473,883	38,943,466
Deferred Income Taxes (note 5)	8,486,000	8,025,000
Long-term Debt (note 6)	51,046,574	17,796,739
Minority Interest (including preferred shares of subsidiaries, $5,141,880)	5,985,391	6,064,082
Shareholders' Equity		
Capital Stock (note 7)	45,354,833	18,354,808
Retained Earnings	80,455,945	80,287,073
	125,810,778	98,641,881
	$248,802,626	$169,471,168

CONSOLIDATED STATEMENT OF SOURCE AND USE OF WORKING CAPITAL

YEAR ENDED MARCH 31	1972	1971
Source		
Net earnings	$ 16,724,797	$ 12,627,116
Depreciation	8,439,697	7,139,120
Deferred income taxes	461,000	2,152,536
Funds derived from operations	25,625,494	21,918,772
Net increase in long-term debt	33,249,835	7,143,163
Net decrease (increase) in investments	1,859,062	(2,135,092)
Issue of common shares	27,000,025	137,524
	87,734,416	27,064,367
Use		
Dividends	8,937,475	8,182,994
Net additions to fixed assets, including $25,399,376 net fixed assets of acquired subsidiaries	36,865,308	10,542,691
Acquisition of interest in subsidiaries (note 8)	7,618,450	1,502,803
Decrease in minority interest	78,691	205,031
Debenture discount and expenses	1,056,729	—
	54,556,653	20,433,519
Increase	33,177,763	6,630,848
Working capital, beginning of year	38,983,921	32,353,073
Working capital, end of year	$ 72,161,684	$ 38,983,921

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Molson Industries Limited and subsidiaries as at March 31, 1972 and the consolidated statements of earnings, retained earnings and source and use of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at March 31, 1972 and the results of their operations and the source and use of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McDONALD, CURRIE & CO.
Chartered Accountants

Montreal, May 24, 1972.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 1972.

1. Basis of consolidation and exchange translation
The consolidated financial statements include the accounts of Molson Industries Limited and all subsidiary companies.

The accounts of the company and its subsidiaries have been consolidated following purchase accounting principles with the exception that the accounts of Anthes Imperial Limited, acquired in 1968, have been consolidated following pooling of interests accounting principles.

Earnings of foreign subsidiaries have been translated at average rates of exchange prevailing in the year. Property accounts (including depreciation and amortization) of foreign subsidiaries have been translated at rates of exchange prevailing at dates of acquisition, and all other assets and liabilities at rates of exchange prevailing at March 31, 1972. Exchange gains or losses resulting from such translation practice are reflected in the consolidated statement of earnings.

2. Extraordinary items	**1972**	1971
Gain on disposal of businesses net of applicable income tax credits of $425,000 in 1972 and $1,044,700 in 1971	**$38,947**	$ 13,721
Foreign exchange adjustment resulting from freeing the Canadian dollar	—	(1,049,000)
	$38,947	$(1,035,279)

3. Fixed assets and depreciation

Cost:	
Land	$ 21,128,418
Buildings	82,199,278
Machinery and equipment	110,673,403
Construction in progress	993,907
	214,995,006
Accumulated depreciation	108,296,989
	$106,698,017

Depreciation is provided at straight-line rates which are related to the estimated useful life of the assets. Depreciation provided in the year amounted to $8,439,697. Approved capital expenditures for the ensuing year amount to approximately $23,000,000.

4. Bank indebtedness
Bank indebtedness of $3,206,517 of certain subsidiaries is secured by accounts receivable of those companies.

5. Income taxes
The tax allocation basis of providing for income taxes is followed in all material respects. Timing differences between reported and taxable income (which occur when expenses recognized in the accounts in one year are claimed for income tax purposes in another year) result in deferred or prepaid taxes which are reflected in the consolidated balance sheet.

6. Long-term debt and interest	Total Amount	Current Maturities
First mortgage bonds, due 1972-1986; 5.84%-11½%	$ 1,355,200	$ 92,000
Debentures:		
Unsecured, due 1977-1991; 8¼%	40,000,000	—
Unsecured, convertible; 5¼% (note 7)	4,278,000	—
Unsecured, due 1972-1982; 6%	3,590,000	180,000
Secured, due 1979-1988; 8¾%	1,000,000	—
Sundry notes payable	1,561,374	466,000
	51,784,574	
Less current maturities	738,000	—
	$51,046,574	$738,000

Required payments during the next five fiscal years are as follows: 1973-$738,000; 1974-$685,000; 1975-$688,000; 1976-$444,000; 1977-$283,000.

Interest on long-term debt, including amortization

of debenture discount, amounted to $2,417,310 in the year.

7. Capital stock

Authorized:

10,000,000	Class "A" common shares without nominal or par value,
7,000,000	Class "B" common shares without nominal or par value,
1,360,000	Class "C" convertible common shares without nominal or par value,
500,000,000	4% non-cumulative preferred shares of the par value of 1¢ each, redeemable at par either out of capital or under Section 62 of the Canada Corporations Act.

The holders of the Class "A" common shares are entitled, voting separately and as a class, to elect annually three members of the board of directors of the company. The Class "B" and the Class "C" common shares are each fully voting.

The holders of the Class "A" common shares are entitled to a non-cumulative preferential dividend of 20¢ per share per annum. No further dividend can be paid on the Class "A" common shares until the Class "B" and the Class "C" common shares receive dividends aggregating 20¢ per share per annum, and thereafter the Class "A", Class "B" and Class "C" common shares rank equally share for share as to dividends.

Dividends in respect of the Class "C" common shares may be paid in the form of stock dividends of the preferred shares redeemable out of tax-paid undistributed income. Each Class "C" common share is convertible, at the option of the holder, into one Class "A" common share and shall be converted into one Class "B" common share on June 30, 1976 or when an aggregate of $4,292,500 of stock dividends has been paid in respect of Class "C" common shares, whichever shall first occur.

Issued and outstanding:

8,360,597	Class "A" common shares	$36,929,746
3,979,844	Class "B" common shares	6,800,053
1,190,027	Class "C" common shares	1,625,034
13,530,468		$45,354,833

In accordance with Section 62 of the Canada Corporations Act $2,809,677 of the retained earnings has been designated as capital surplus resulting from redemption of preferred shares.

During the year—

14,879 Class "A" and 11,240 Class "B" common shares were issued for cash of $207,635 and $163,815 respectively under the terms of the employee stock option plans.

2,130,286 Class "A" common shares were issued at the aggregate value of $26,628,575 as partial consideration for 2,599,863 common shares and 63,105 Class A shares of Beaver Lumber Company Limited acquired pursuant to the Offer made on November 17, 1971.

68,915 Class "A" common shares were issued at the aggregate value of $94,106 in exchange for the same number and value of Class "C" common shares pursuant to the conversion right attaching to the Class "C" common shares.

Options to purchase 33,248 Class "A" common shares at prices ranging from $10.75 to $16.94 per share exercisable until January 31, 1976 were extended to employees of Beaver Lumber Company Limited to replace options to purchase common shares of Beaver under its employee stock option plan.

73,242,240 preferred shares were issued as stock dividends on the Class "C" convertible common stock and were redeemed at par for $732,422.

Stock options:

At March 31, 1972 options to employees were outstanding to purchase 47,863 Class "A" common shares at prices ranging from $10.75 to $19.62 per share and 18,415 Class "B" common shares at prices ranging from $15.00 to $20.00 per share. All options expire prior to February 1, 1976.

Beaver 5¼% convertible debentures:

The 5¼% convertible debentures Series A of Beaver Lumber Company Limited due May 1, 1989 are convertible prior to May 2, 1979 into common shares of Beaver on the basis of 50 shares per $1,000 principal amount. The debenture holders have been informed that subject to their approval in the manner prescribed in the Trust Indenture, arrangements would be made to enable debenture holders at their option exercisable through May 1, 1979, to convert $1,000 principal amount of debentures into 47 Molson Class "A" common shares. For this purpose, a meeting of the debenture holders has been called for June 21, 1972.

If approved by the debenture holders, the proposed conversion right will supersede and replace the present right to convert $1,000 principal amount of debentures into 50 fully paid and non-assessable Beaver common shares. Based upon an aggregate principal amount of $4,278,000 of such debentures outstanding at March 31, 1972, 201,066 Molson Class "A" common shares have been reserved pending and subject to approval by the debenture holders of the proposed conversion right.

8. Acquisitions

(a) The company has acquired approximately 99% of the outstanding common shares without nominal or par value and approximately 80% of the outstanding Class A shares without nominal or par value of Beaver Lumber Company Limited (i) by the purchase for cash on November 15, 1971 of 582,800 Beaver common shares at the price of $18 per share, and (ii) pursuant to the company's cash and share exchange offer dated November 17, 1971 made to the holders of Beaver common and Class A shares.

The total consideration for these acquisitions comprised the following:

Cash payment for the 582,800 Beaver common shares acquired before the Offer	$10,490,428	
Cash payment for the Beaver common and Class A shares acquired under the Offer	10,624,675	
2,130,286 Molson Class "A" common shares issued at the value of $12.50 per share in exchange for the Beaver common and Class A shares acquired under the Offer	26,628,575	
Total consideration		$47,743,678

Net assets of Beaver at date of acquisition were as follows:

Book value of net assets	$33,806,575	
Adjustment to independently appraised fair value of land	10,450,000	
	44,256,575	
Deduct minority interest share	1,264,488	
Net assets at fair value		42,992,087
Excess of consideration over underlying fair value		$ 4,751,591

(b) Nine other acquisitions of shares or assets were made on several dates during the year for a total cash consideration of $16,457,997. Net assets at dates of acquisition related to the consideration were as follows:

Total consideration		$16,457,997
Book value of net assets	$12,591,138	
Adjustment to independently appraised fair value of property	1,000,000	
Net assets at fair value		13,591,138
Excess of consideration over underlying fair value		$ 2,866,859

(c) The excess of the aggregate consideration over the aggregate underlying fair value of net assets acquired amounting to $7,618,450 has been written off to consolidated retained earnings.

(d) The accounts of the businesses acquired during the year have been consolidated following purchase accounting principles, from December 31, 1971 in respect of Beaver and from the respective acquisition dates of the others.

9. Pensions

The consolidated statement of earnings includes provision for annual pension contributions which are estimated by actuarial evaluation to be adequate to fund current service costs. Past service costs of employee benefit plans are being funded over periods not exceeding 30 years. The unfunded liability for such past service costs amounted to approximately $4,100,000 at March 31, 1972.

10. Pending legal proceedings

The company, among others, is a defendant in a lawsuit originally commenced in a United States District Court, and now pending, upon appeal by plaintiffs, before a United States Court of Appeals. The lawsuit stems from the company's offer made in June, 1968 to acquire the common stock of Anthes Imperial Limited, and claims damages in the aggregate amount of approximately (U.S.) $2.5 million. The lower court has dismissed the action and an appeal is currently pending. In the opinion of the company's United States legal counsel, upon the basis of the facts and law now known to them, this lawsuit is without merit.

11. Lease commitments

At March 31, 1972 the company had lease commitments expiring between 1972 and 1992 providing for approximate annual rentals of $2,100,000 in each of the next five years.

12. Remuneration of directors and officers

The aggregate remuneration of 18 directors as directors amounted to $40,000 and the aggregate remuneration of 17 officers as officers amounted to $864,265 in the year. Seven officers are also directors.

13. Classes of business

In the opinion of the directors, the company carried on six classes of business during the year the amount of sales or revenues of which formed the undernoted proportions of consolidated sales:

Brewing products	$232,162,979	62%
Construction products and services	43,761,372	12%
Office and educational furniture and supplies and home furniture	37,729,631	10%
Retail merchandising	33,200,624	9%
Petroleum marketing equipment	20,823,308	5%
Warehousing and distribution services	8,362,023	2%
	$376,039,937	100%

OPERATING AND FINANCIAL RECORD

	1972 $	1971 $	1970 $
Sales	376,039,937	314,691,924	312,750,04
Profit from operations	32,523,438	27,988,415	27,118,98
Investment income	978,028	1,006,129	1,210,43
Income taxes	16,500,000	15,000,000	14,700,00
Net earnings after extraordinary items	16,724,797	12,627,116	12,172,54
Cash flow	25,625,494	21,918,665	19,162,34
Dividends	8,937,475	8,182,994	8,195,29
Net earnings per "A", "B" and "C" share	1.40	1.11	1.0
Cash flow per "A", "B" and "C" share	2.15	1.93	1.6
Dividends per "A", "B" and "C" share	.72	.72	.7
Shareholders' equity per "A", "B" and "C" share	9.29	8.67	8.4
Depreciation and amortization	8,439,697	7,139,120	6,804,31
Net additions to fixed assets	36,865,308	10,542,691	11,796,23
Working capital	72,161,684	38,983,921	32,353,07
Total assets	248,802,626	169,471,168	164,195,99
Debt	51,046,574	17,796,739	10,653,57
Minority interest	5,985,391	6,064,082	6,308,59
Shareholders' equity	125,810,778	98,641,881	95,523,55
Number of "A", "B" and "C" shares outstanding	13,530,468	11,374,063	11,362,18
Number of shareholders	15,016	13,700	13,16
Number of employees	9,210	6,674	7,36

Note:
Dividends per "A", "B" and "C" share record the dividend rate of Molson Industries Limited. All other data has been restated to reflect the consolidation of Anthes Imperial Limited on a pooling of interests basis.

The number of "A", "B" and "C" common shares outstanding has been restated to reflect the subdivision of shares in 1966 and the issue of shares in exchange for those of Anthes Imperial Limited.

The fiscal year end of Anthes Imperial Limited was changed from December 31 to March 31 to correspond with the fiscal year end of Molson Industries Limited, commencing January 1, 1969. Commencing with the 1969 fiscal year, the record consolidates data of each company for the 12 months ended March 31.

For the fiscal periods ending March 31, 1964 through 1968, the record incorporates data of Anthes for its fiscal years ended the three months earlier.

1969 $	1968 $	1967 $	1966 $	1965 $	1964 $
295,575,484	275,354,234	244,709,298	216,811,765	210,232,715	154,946,757
27,722,837	34,004,084	30,826,270	27,573,388	25,412,126	20,541,250
2,948,907	1,685,006	1,350,790	1,444,245	1,254,905	799,653
15,000,000	17,200,000	15,777,000	14,123,500	12,672,000	9,983,000
15,072,606	15,985,752	14,455,164	12,133,021	10,931,239	9,252,380
22,257,299	22,948,906	20,519,466	18,753,274	17,937,717	14,806,148
7,873,694	6,978,816	6,139,466	5,233,863	4,929,974	4,262,353
1.33	1.41	1.28	1.11	1.01	.91
1.96	2.03	1.82	1.71	1.65	1.46
.72	.72	.64	.55	.55	.50
8.46	8.02	7.30	6.59	5.90	5.49
6,682,351	6,007,168	5,578,996	6,056,470	6,483,191	5,234,505
10,524,540	10,747,881	7,584,537	5,590,704	5,002,480	4,073,950
45,636,434	44,097,591	39,946,521	34,101,759	24,992,856	22,138,483
150,690,599	151,024,404	132,954,357	119,615,922	115,220,095	91,996,063
11,128,492	11,356,590	10,186,899	10,671,299	20,582,574	15,720,000
10,393,182	10,648,797	8,664,985	8,606,491	8,395,137	3,930,170
96,025,423	90,889,652	82,182,695	72,110,719	64,153,137	55,567,871
11,346,368	11,328,912	11,263,283	10,935,173	10,867,785	10,115,672
13,252					
7,500					

PRINCIPAL OPERATING OFFICERS

Brewing Group
P.B. Stewart, Senior Vice President

WESTERN DIVISION
A.L. Keyworth, President

ONTARIO DIVISION
A.B. Ferguson, President

QUEBEC DIVISION
J.P. Rogers, President

NEWFOUNDLAND DIVISION
G.M. Winter, President

Commercial Products and Services Group
J.P.G. Kemp, Senior Vice President

ANTHES BUSINESS FORMS DIVISION
D.W. Gray, Vice President and General Manager

DELUXE UPHOLSTERING DIVISION
D.W. Eby, Vice President and General Manager

MOYER SCHOOL SUPPLIES DIVISION
E.F. Flegg, Chairman
G.C. Berry, President

OFFICE SPECIALTY DIVISION
L.J. Craddock, Vice President and General Manager

VILAS FURNITURE DIVISION
G.L. Townsend, Vice President and General Manager

WILLSON BUSINESS SERVICES DIVISION
R.L. Garver, President

MIDWEST STORAGE DIVISION
E.A. Backhouse, Vice President and General Manager

SEAWAY STORAGE DIVISION
R. Goldsmith, Vice President and General Manager

Industrial Products Group
G.B. Waterman, Senior Vice President

ANTHES EASTERN DIVISION
W.A. Farnell, Vice President and General Manager

ANTHES EQUIPMENT DIVISION
P.M. Duynstee, Vice President and General Manager

ANTHES WESTERN DIVISION
C.R. McBain, Vice President and General Manager

BENNETT PUMP DIVISION
P.W. Keessen, President

Retail Merchandising Group
David Lakie, Senior Vice President

AIKENHEAD HARDWARE DIVISION
J.M. Aikenhead, President

BEAVER LUMBER ONTARIO DIVISION
K.A. Mitchell, Vice President and General Manager

BEAVER LUMBER WESTERN DIVISION
A.G. Gemmell, Vice President and General Manager